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RESPONSE OF THE FEDERAL
GOVERNMENT TO THE
RECOMMENDATIONS OF THE
CONSULTATIVE TASK FORCE ON

THE CANADIAN AUTOMOTIVE INDUSTRY




Government
of Canada

Gouvernement
du Canada

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TO THE RECOMMENDATIONS OF THE
CONSULTATIVE TASK FORCE
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AUTOMOTIVE INDUSTRY

March 1979



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INTRODUCTION

In February 1978, Canada's First Ministers initiated a process of private sector consultations on measures to improve the performance of, and the outlook for, the manufacturing, construction and tourism sectors in the Canadian economy. Twenty-three industry task forces composed of representatives of management, labour and the academic community were formed. Provincial government representatives also participated. By August 1978, each task force had completed a series of meetings and submitted a report reflecting conditions in their industry to the Federal and Provincial Ministers of Industry and to the public. These reports covered a broad range of themes and the recommendations contained in them are viewed by the federal government as important elements in the development of future industrial policies.

Following the work of the industry sector task forces, an Overview Committee was established consisting of five representatives from the Canadian Labour Congress, five from the business community, one from the academic community and a chairman from the private sector. This group worked from the task force reports, identified common viewpoints, and presented policy recommendations applicable both to the economy generally and to specific industries. The Overview Committee presented its report to Governments in October 1978.

In reviewing the prospects for industrial growth over the next number of years, the reports prepared by the industry task forces and the Overview Committee addressed two objectives in particular. The first, was to improve the competitiveness and productivity of Canadian industry. The second was to create long-term employment.

In assessing these reports, and the Government's responses, a number of themes emerge which are of particular importance and which might be viewed as providing a framework for the recommendations of business and labour as well as the responses of the federal government. These themes focus on measures to increase industrial competitiveness, especially by building on comparative advantage, the support of regional economic development goals and the enhancement of Government, business and labour cooperation.

While the substance of what has emerged from the task force and Overview Committee reports is of utmost importance, the Government believes that the emerging process of Government/private sector consultation is of equal value. In this regard, the federal government views the results of these consultations as a significant framework for evaluating existing policies and programs and for designing new ones.

As part of its commitment to the consultative process, the Government has undertaken to respond to the recommendations of each of the 23 task forces and to those of the Overview Committee. An initial Government response was released in November 1978 entitled "Action for Industrial Growth - A First Response". A specific response to the task force recommendations with respect to taxation measures was included in the Budget Papers of November 16, 1978. On February 21, 1979, the Government released its response to the forty-six recommendations made by the Overview Committee. The Government agreed with and outlined measures in relation to the overwhelming majority of these recommendations. This document, Response of the Federal Government to the Recommendations of the Consultative Task Force on the Canadian Automotive Industry, constitutes one of the twenty-three detailed federal government responses paralleling the task force reports and should be viewed as part of the ongoing consultative process.

It is recognized that the implementation of policy initiatives indicated in these responses will, in many cases, take some time and that a few other policy issues have yet to be fully addressed. The Government will, therefore, be continuing to respond to the industry task force reports. The Government also believes that continuing consultations between business, labour and Government on specific industry sector problems are a vital part of this further work. Finally, the Government recognized that in responding to the recommendations, not all participants of each task force will be satisfied. In a number of instances, dissenting reports were submitted along with or after completion of the task force report. The Government is committed to addressing all recommendations contained in these reports.

PART I

GOVERNMENT RESPONSE TO TASK FORCE RECOMMENDATIONS - AN OVERVIEW

The Consultative Task Force on the Automotive Industry in Canada was brought together at a time when there was extensive public debate on the issues facing the automotive industry. Trade statistics, employment, investment and profitability were all being discussed and various published reports were drawing different conclusions from the available data. The main thrust of the public debate was that Canada was not achieving a fair share of production, employment and investment in a North American context.

During the time that the Consultative Task Force was conducting its meetings and prior to writing its report, the federal government appointed Mr. S.S. Reisman, a Commissioner under the Inquiries Act, to inquire into and to report on the means to ensure development in Canada of a balanced and internationally competitive automotive industry. In the circumstances the task force decided that the most significant contribution that it could make was to lay before Government the facts as seen by the members, to identify areas of general concern and to present some of the options open for achieving a better balance between automotive production and consumption in Canada.

The task force restricted its recommendations to items which it felt did not impinge on Mr. Reisman's mandate. In the process of formulating these recommendations, the task force also raised several other substantive issues. These were that:

- 1) The automotive industry be viewed as consisting of three distinct segments:
 - a) production and trade under APTA,
 - b) aftermarket or replacement parts, and
 - c) third country vehicle manufacturers;
- 2) Canada explore the potential for supplying energy-intensive products, e.g., aluminum castings, in Japan and Europe;
- 3) Canada should be aggressively seeking research and development which can be performed, and the results exploited, at the plant level;
- 4) The federal government develop a firmer commitment to research and development in the automotive industry; and
- 5) The federal government should consider some form of transitional assistance benefits to displaced workers.

A meeting of the Consultative Task Force was convened for the specific purpose of discussing with Mr. Reisman the views and understandings which had been gained from earlier meetings of the task force. Mr. Reisman has made explicit recommendations in these areas and the federal government response to them can be taken as a positive response to the issues raised by the task force.

In addition to the explicit recommendations of the task force, separate comments were submitted by task force members from the United Automobile Workers' Union (UAW) and by the five parts manufacturers who are also members of the Automotive Parts Manufacturers' Association. Government responses to these comments are also contained in Parts III and IV of this report.

Further, the Government has released a comprehensive policy statement on the automotive industry which goes beyond the recommendations and responses contained in this report and may be obtained by writing:

Office of Information and Public Relations (98)
Department of Industry, Trade and Commerce
235 Queen Street
Ottawa, Ontario K1A 0H5

PART II

DETAILED RESPONSE TO TASK FORCE RECOMMENDATIONS

ANNUAL REPORT

1. Recommendation

The Government should prepare a report on the performance of the industry and submit it to Parliament on an annual basis. This report would review developments in the previous year covering trade, production, sales, investment, employment, the Automotive Agreement and related matters.

Government Response

The Government agrees that a comprehensive annual report on the automotive industry would serve a useful purpose. The Department of Industry, Trade and Commerce will review the industry on an annual basis and produce an annual report beginning with the 1979 model year. This report will be subject to consultation with all interested parties in the industry.

INVESTMENT CLIMATE

2. Recommendation

The Government should take action to improve the investment climate in Canada to create an environment that is attractive to new automotive investment.

Government Response

The actions which the Government should take to support this recommendation are not specified. The task force report touches on the broad range of Government measures related to how it pursues social objectives, to the creation of special instruments such as FIRA designed to protect Canadian interests, to specific aspects of the Canadian tax system and claims that these represent potential investment impediments. The Government does not agree that these various policies and actions are impediments. Indeed, in many circumstances it believes that such policies have provided Canada with a high quality of "social capital" (schools, hospitals, attractive cities and a trained and educated work force) which has helped to attract both capital and people to Canada.

In a more specific way the Government has put in place particular measures to improve the investment climate. These have included traditional instruments such as a mix of lower tax rates fast write-offs and tax credits for the investment of new capital, the use of flexible forms of assistance related to regional development, and Government supported financial facilities such as

the Export Development Corporation and the Enterprise Development Program. These broad measures have been continually supplemented or refined in successive budgets. In the budget of November 16, 1978, for example, proposed changes such as the indefinite extension and enrichment of the investment tax credit and increased incentives for research and development were included. In addition, a major action of the Government, intended to provide potential investors, both domestic and foreign, with evidence of the Government's clear commitment to economic growth was the creation of the Board of Economic Development Ministers. The Board will ensure that existing and proposed economic development policies and programs are effectively coordinated, amended or developed to stimulate economic growth and the creation of long-term employment for Canadians.

OPTIONS

3. Recommendation

The options presented range from the provision of investment incentives to some form of market restriction unless companies invest in Canada. The task force indicated that the best answer probably lies somewhere between the two choices and probably incorporates elements of both.

Government Response

The Government agrees with the task force that a middle course between these choices is the most appropriate action to take. While vehicle manufacturers are required to meet certain conditions under the Automotive Products Trade Agreement to obtain duty-free access to the Canadian market, the option of further restricting market access remains as an option but currently the Government does not see this as being necessary.

The Government will pursue discussions on an urgent basis with the United States with a view to reaching agreement to contain the use of investment incentives. Until these negotiations prove successful, the Government will not stand by if substantial investments are being lost to Canada as a result of investment incentives available in the United States. In order to offset the effect of investment subsidies available in the United States, special federal government assistance would be considered in those cases which do not meet the criteria of existing federal government programs where such aid is beyond the financial capacity of the province concerned and when the project would otherwise be lost to Canada.

PART III

RESPONSE TO UNITED AUTOMOBILE WORKERS UNION

The United Auto Workers (UAW) filed a separate report which was incorporated as an appendix in the task force report. The UAW views related to the Recommendations and Options expressed in the report.

On the first recommendation of the task force, publication of an annual report on the automotive industry, the UAW commented that the report should go further than just compiling the general statistics already available. In particular, the UAW is seeking information on Canadian value added and investment plans, not only for the industry, but on a company by company basis. The federal government agrees with the intent of this comment and will make the report as comprehensive as possible without breaching commercial confidentiality.

On the second recommendation of the task force, improving the investment climate, the UAW commented that any serious analysis of the industry indicates a very favourable investment climate. Within the body of the task force report it is stated that many companies (on the task force) as well as the UAW regarded foreign perceptions of the investment climate in Canada as misperceptions. Based on his discussions with foreign investors, Mr. Reisman states: Perception and reality may differ greatly in this area, but certainly foreign investors consider that Canada no longer offers the industrial hospitality evident in the mid 1960s. The federal government agrees with the view expressed by the UAW and is taking every opportunity to correct misperceptions of potential foreign investors.

Under Options the task force report suggested that either incentives or some form of compulsion might be required to attract adequate automotive investment in the short-term. Based on the profitability of automotive corporations in Canada, the UAW rejects the concept of offering incentives. The position is put forward that Canada has a right to a certain share of jobs based on the market that exists here and that the responsibility for enforcing this right rests with the federal government.

Under the Automotive Products Trade Agreement (APTA) an efficient and internationally competitive automotive industry has developed in Canada. The current level of production is well above minimum safeguard levels. Commercial motivation has resulted in automotive trade under APTA being roughly in balance.

PART IV

RESPONSE TO THE AUTOMOTIVE PARTS MANUFACTURERS

Five parts manufacturers, who are also members of the Automotive Parts Manufacturers' Association (APMA), wrote to the Chairman of the task force and disassociated themselves from the conclusions reached by the task force. The stated reason for this action was that the APMA proposal for an Automotive Investment Corporation had received little mention and no endorsement in the task force report.

In the course of his inquiry into the Canadian automotive industry, Mr. Reisman examined the proposal for an Automotive Investment Corporation and found that he could not recommend it. The federal government accepts Mr. Reisman's finding that it would be inappropriate to make loans available to parts manufacturers at reduced or subsidized rates of interest. He pointed out that the industry as a whole is consistently more profitable than its counterpart in the United States and that there is no evidence that parts producers are having difficulty raising funds for investment. The Government recognizes that some of the smaller parts producers may not be in as strong a financial position as the major multinational companies and that they may in fact have some difficulty in raising the required funds for expansion or modernization of their facilities. Small to medium-sized parts producers with commercially viable projects that cannot obtain financing through normal commercial channels will continue to be eligible for loan guarantees under the Enterprise Development Program provided they meet the existing program criteria.

ANNEX I

LIST OF THE AUTOMOTIVE CONSULTATIVE TASK FORCE MEMBERS

CHAIRMAN Mr. N.H. Bell, Past President
White Motors Corporation

MEMBERS

Industrial

*Mr. C.O. Macey President TRW Canada Ltd.	Mr. R.M. Waugh Vice-President General Motors of Canada Ltd.
*Mr. D.L. Sedgwick President Tridon Ltd.	Mr. W. Fleming President International Harvester of Canada Ltd.
*Mr. R.C. Buck President Dominion Auto Accessories	Mr. R.A. Buckner President Canadian Kenworth Ltd.
Prof. K.R. Blowatt B. Sc., P. Eng. Brock University	Mr. R. Juneau President R.J. Stampings Co. Ltd.
*Mr. B. Hargrove United Auto Workers	Mr. P.B. Mason President B.F. Goodrich
*Mr. S. Gindin Research Director United Auto Workers	*Mr. F. Stronach Chairman Magna International Inc.
Mr. W.S. Pickett President American Motors (Canada) Ltd.	*Mr. M.J. Ripley President Canadian Fram Ltd.

Provincial Governments

Mr. C. Genest Industrial Specialist Ministry of Industry and Commerce Montreal, Quebec	Mr. L.R. Hassell Director Ministry of Industry and Tourism Toronto, Ontario
Mr. D. Carette Industrial Specialist Ministry of Industry and Commerce Quebec, Quebec	Mr. G. Hayes Director Ministry of Industry and Tourism Winnipeg, Manitoba

* Members unable to agree with some parts of the Task Force Report

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